# Answers to Discussion Questions

**Chapter One**

The six listed options for the Kendall School range from the status quo to the most radical option of razing the building and selling off the land. Options d, e, and f mean that the town will no longer own and control the site. The best option for the town depends both on economics and the town's particular objectives. A purely economic objective might mean maximizing the sum of money the town receives for the school and land. Whether option d, e, or f is most profitable depends on whether the site is worth more after conversion to condominiums or sold as open land. One approach is for the planning board to make its own economic assessment and act accordingly. (For this task, it would need economic data on current land values, condominium prices, construction costs, and so on. It would also need to forecast future values, costs, and prices to decide whether it's better to sell now or later.) A different approach is to ask for competitive bids from the private sector. Presumably, the highest bid reflects the maximum-value use of the land.

The board may also have non-economic objectives in mind: promoting the arts, maintaining open land in the town, retaining the option to use the space for its own purposes. Options a, b, and c address some of these objectives. But before adopting one of these options, the town would be well-advised to assess its opportunity cost – the income it might be giving up by rejecting a more profitable alternative. Then they can decide if pursuing these non-monetary objectives is worth the cost.

**Chapter Two**

Suppose the firm considers expanding its direct sales force from 20 to, say 23 sales people. Clearly, the firm should be able to estimate the marginal cost of the typical additional sales person (wages plus fringe benefits plus support costs including company vehicle). The additional net profit generated by an

additional sales person is a little more difficult to predict. An estimate might be based on the average profitability of its current sales force. A more detailed estimate might judge how many new client contacts a salesperson makes, historically what fraction of these contacts result in new business, what is the average profit of these new accounts, and so on. If the marginal profit of a sales person is estimated to be between $100,000 and $120,000 while the marginal cost is $85,000, then the firm has a clear-cut course of action, namely hire the additional 1, 2, or 3 employees.